

Discovery Holding CO  
Form DEFM14A  
August 06, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

**Discovery Holding Company**

(Name of Registrant as Specified In Its Charter)

**N/A**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- o No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Discovery Holding Company Series A Common Stock, par value \$.01 per share  
Discovery Holding Company Series B Common Stock, par value \$.01 per share  
Discovery Communications, Inc. Series A Common Stock, par value \$.01 per share  
Discovery Communications, Inc. Series B Common Stock, par value \$.01 per share  
Discovery Communications, Inc. Series C Common Stock, par value \$.01 per share  
Discovery Communications, Inc. Series A Convertible Participating Preferred Stock, par value \$.01 per share  
Discovery Communications, Inc. Series C Convertible Participating Preferred Stock, par value \$.01 per share

(2) Aggregate number of securities to which transaction applies:

As of May 31, 2008, there were (1) 269,209,385 shares of DHC Series A Common Stock outstanding (which for this purpose includes shares subject to outstanding equity incentive awards), and (2) 14,866,221 shares of DHC Series B Common Stock outstanding (which for this purpose includes shares subject to outstanding equity incentive awards). Based on the foregoing, following the transaction, there would be outstanding (1) 134,604,693 shares of New Discovery Series A Common Stock (which for this purpose includes shares subject to outstanding equity incentive awards), (2) 7,433,111 shares of New Discovery Series B Common Stock (which for this purpose includes shares subject to outstanding equity incentive awards), and (3) 142,037,803 shares of New Discovery Series C Common Stock (which for this purpose includes shares subject to outstanding equity incentive awards). Based on the foregoing, 70,308,038 shares of New Discovery Series A Convertible Participating Preferred Stock and 70,308,038 shares of New Discovery Series C Convertible Participating Preferred Stock would be issued in the Transaction (exclusive of any shares that may subsequently be placed in escrow in favor of the preferred stockholders).

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee is being calculated based upon an aggregate transaction value of \$6,947,123,554.08, which is obtained by: (1) multiplying the number of outstanding shares of DHC Series A Common Stock and DHC Series B Common Stock listed above by the averages of the high and low prices reported for each series of DHC Common Stock on the Nasdaq Global Select Market on June 4, 2008 (which were \$26.27 for the Series A and \$26.05 for the Series B), (2) subtracting therefrom the book value (\$654,919,000 as of March 31, 2008) of Ascent Media Corporation (which is currently included in the market capitalization of DHC but will not be part of the Transaction (as defined in the accompanying preliminary proxy statement/prospectus)), and (3) adding thereto the book value (\$143,933,000 as of March 31, 2008) of the assets to be contributed by Advance/Newhouse in exchange for the issuance of the New Discovery convertible preferred stock.

- (4) Proposed maximum aggregate value of transaction:  
\$6,947,123,554.08

- (5) Total fee paid:  
\$273,021.96, estimated pursuant to Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, on the basis of \$39.30 per million of the estimated maximum aggregate value of the transaction.

- x Fee paid previously with preliminary materials.  
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

August 6, 2008

Dear Stockholders,

We are pleased to present for your consideration and approval four related proposals, which, if approved, would result in Discovery Communications, LLC (**Discovery**) becoming a wholly-owned subsidiary of our company. Today, Discovery is jointly owned by our company, with a 66 $\frac{2}{3}$ % interest, and Advance/Newhouse Programming Partnership, with a 33 $\frac{1}{3}$ % interest.

Pursuant to the first proposal, which we refer to as the **merger proposal**, our company will become a subsidiary of a new public holding company, Discovery Communications, Inc., which we refer to as **New Discovery**, in which you will be entitled to receive, for each share of Series A common stock or Series B common stock of our company owned by you, 0.50 of a share of the same series of common stock of New Discovery *plus* 0.50 of a share of Series C common stock of New Discovery. All three series of New Discovery common stock (Series A, B and C) will have the same rights, powers and preferences except as to voting, with Series B having 10 votes per share, Series A having one vote per share, and Series C not having any voting rights except as required by Delaware law.

Pursuant to the second proposal, which we refer to as the **preferred stock issuance proposal**, New Discovery will issue two series of New Discovery convertible preferred stock (Series A and Series C) to Advance/Newhouse, in exchange for its contribution to New Discovery of its entire interest in Discovery and its interest in Animal Planet, L.P. The convertible preferred stocks will initially be convertible, on an as-converted basis, into one-third of the common equity of New Discovery, with the Series A convertible preferred stock being convertible into shares of New Discovery Series A common stock and the Series C convertible preferred stock being convertible into shares of New Discovery Series C common stock. Advance/Newhouse will be entitled to additional shares of convertible preferred stock following the merger upon exercise of certain options and stock appreciation rights that will be outstanding immediately after the merger. The New Discovery convertible preferred stock will have certain class voting rights and will elect three members of New Discovery's board of directors. Otherwise, the preferred stock will vote with the New Discovery common stock on an as-converted basis, except that it will not vote on directors elected by the holders of New Discovery common stock. We refer to our merger and the contribution by Advance/Newhouse of its interest in Discovery and Animal Planet, L.P. in exchange for the New Discovery convertible preferred stock as the **Transaction**.

Pursuant to the third proposal, which we refer to as the **authorized stock proposal**, we seek your approval of that portion of New Discovery's charter which authorizes the issuance of up to 3.8 billion shares of common stock and 200 million shares of preferred stock. Today, our charter provides for 1.25 billion shares of common stock and 50 million shares of preferred stock. The increased capitalization is sought in order to effectuate the issuance of the convertible preferred stock to Advance/Newhouse and the merger, as well as to provide New Discovery with flexibility in the future by assuring the availability of sufficient authorized but unissued shares for a variety of corporate purposes, such as financings, stock dividends, and mergers and acquisitions.

Pursuant to the fourth proposal, which we refer to as the **incentive plan proposal**, in connection with the Transaction, the number of shares of common stock with respect to which awards may be granted under the Discovery Holding Company 2005 Incentive Plan, as amended, overall and to any person in any single calendar year will be increased, and other revisions intended to clarify certain terms of the plan will be made. The plan will be assumed by New Discovery in the Transaction, as the successor to DHC. We will not implement the incentive plan proposal unless we complete the Transaction.

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Just prior to the Transaction, we will spin off to our current stockholders the businesses of our subsidiary Ascent Media Corporation. We are not seeking stockholder approval for the spin-off.

We believe that the Transaction, together with the spin-off, will create tremendous value for our stockholders by transforming our company into a pure-play high quality programming company. Your board of directors has approved the Transaction, believes it is in the best interests of our stockholders, and recommends that you vote in favor of the merger proposal, the preferred stock issuance proposal, the authorized stock proposal and the incentive plan proposal, which we refer collectively to as the **transaction proposals**.

The vote on the transaction proposals will occur at our 2008 Annual Meeting of Stockholders, which will be held at Starz Entertainment, LLC, 8900 Liberty Circle, Englewood, CO 80112, Tel. No. (720) 852-7700, on September 16, 2008 at 9 a.m., local time. We will also be attending to annual business matters at the Annual Meeting, including a proposal to re-elect Messrs. John Malone and Robert Bennett as Class III directors, as explained in the accompanying Notice of Annual Meeting. Before voting on any of the proposals submitted for your consideration, please be sure to read the accompanying proxy statement/prospectus because it contains important information about the matters to be acted upon.

New Discovery will have an eleven-member board of directors after completion of the Transaction, which will initially be composed of the existing members of our board of directors, including Messrs. Malone and Bennett, a new independent director, two new directors who are current executives of Discovery and three additional directors who are to be elected by Advance/Newhouse pursuant to the terms of the New Discovery convertible preferred stock. Two of the initial electees of Advance/Newhouse will be Robert J. Miron, Chairman of Advance/Newhouse, and Steven A. Miron, the Chief Executive Officer of Advance/Newhouse. The management team of New Discovery will consist of the current management team of Discovery.

We expect to list the New Discovery Series A and Series B common stock on the Nasdaq Global Select Market under the symbols DISCA and DISCB, the same symbols under which our existing Series A and Series B common stock are listed, and the New Discovery Series C common stock to be listed on the Nasdaq Global Select Market under the symbol DISCK.

We are very excited about the proposed Transaction, and we look forward to obtaining your approval at the Annual Meeting. As discussed in the accompanying proxy statement/prospectus, the Transaction is subject to a number of conditions in addition to approval by our stockholders at the Annual Meeting.

***Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible to make sure that your shares are represented.***

Thank you for your continued support and interest in our company.

Sincerely,

John C. Malone  
Chief Executive Officer and Chairman of the Board  
Discovery Holding Company

This letter to stockholders also serves as the cover of the prospectus of New Discovery. Pursuant to the Registration Statement of which this proxy statement/prospectus forms a part, New Discovery will offer up to 134,604,693 shares of its Series A common stock, 7,433,111 shares of its Series B common stock, and 142,037,803 shares of its Series C common stock in the Transaction, based on the number of outstanding shares of DHC common stock as of June 30, 2008.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Transaction or the securities being offered in the Transaction, has passed upon the merits of the Transaction or passed upon the adequacy or accuracy of the disclosure in this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**Investing in our securities involves risks. See Risk Factors beginning on page 25.**

The accompanying proxy statement/prospectus is dated August 6, 2008 and is first being mailed on or about August 8, 2008 to our stockholders of record as of 5:00 p.m., New York City time, on August 5, 2008.

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## REFERENCES TO ADDITIONAL INFORMATION

Discovery Holding Company is subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, DHC files periodic reports and other information with the Securities and Exchange Commission. In addition, this proxy statement/prospectus incorporates important business and financial information about DHC from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain copies of documents filed by DHC with the SEC, including the documents incorporated by reference in this proxy statement/prospectus, through the SEC website at <http://www.sec.gov> or by contacting DHC by writing or telephoning the office of Investor Relations:

Discovery Holding Company  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (877) 772-1518

**If you would like to request any documents, please do so by September 2, 2008 in order to receive them before the Annual Meeting.** If you request any documents, they will be mailed to you by first class mail, or another equally prompt means, within one business day after your request is received.

See Additional Information Where You Can Find More Information beginning on page 163.

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**DISCOVERY HOLDING COMPANY**  
a Delaware Company

12300 Liberty Boulevard  
Englewood, Colorado 80112  
(720) 875-4000

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held September 16, 2008**

Dear Discovery Holding Company Stockholder:

You are cordially invited to attend, and notice is hereby given of, the 2008 Annual Meeting of Stockholders of Discovery Holding Company (**DHC**) to be held at Starz Entertainment, LLC, 8900 Liberty Circle, Englewood, CO 80112, Tel. No. (720) 852-7700, on September 16, 2008 at 9 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2008, among DHC, Discovery Communications, Inc. (**New Discovery**) and Merger Sub, Inc. (**Merger Sub**), a wholly-owned subsidiary of New Discovery, pursuant to which, among other things, Merger Sub would merge with and into DHC, and each outstanding share of DHC Series A and Series B common stock would be exchanged for 0.50 of a share of the same series of New Discovery common stock *plus* 0.50 of a share of New Discovery Series C common stock. We refer to this proposal as the **merger proposal**.
2. To consider and vote upon a proposal to issue New Discovery Series A and Series C convertible preferred stock to Advance/Newhouse Programming Partnership in exchange for its contribution to New Discovery of its entire indirect interest in Discovery Communications, LLC and Animal Planet, L.P. (**Animal Planet**). We refer to this proposal as the **preferred stock issuance proposal**.
3. To consider and vote upon a proposal to include in the charter of New Discovery, as to the total number of shares which New Discovery shall have authority to issue, 4,000,000,000 shares, of which 3,800,000,000 shall be of a class designated as common stock, and of which 200,000,000 shall be of a class designated as preferred stock. We refer to this proposal as the **authorized stock proposal**.
4. To consider and vote upon a proposal to increase the number of shares of common stock with respect to which awards may be granted under the Discovery Holding Company 2005 Incentive Plan, as amended (as the same is assumed by New Discovery, the **DHC incentive plan**), overall and to any person in any single calendar year and to make other revisions intended to clarify certain terms of the plan. We refer to this proposal as the **incentive plan proposal**.

We refer to the merger proposal, the preferred stock issuance proposal, the authorized stock proposal and the incentive plan proposal, collectively, as the **transaction proposals**. *Each of the merger proposal, the preferred stock issuance proposal and the authorized stock proposal is dependent on the other two, and none will be implemented unless they are all approved at the Annual Meeting. None of the merger proposal, the preferred stock issuance proposal or the authorized stock proposal is dependent on the approval of the incentive plan proposal. The incentive plan proposal is, however, dependent on the approval of the merger proposal, preferred stock issuance proposal and the authorized stock proposal and will not be implemented unless all three of these proposals are approved at the Annual Meeting and implemented thereafter.*

In addition to the transaction proposals, at the Annual Meeting you will be asked:

5. To consider and vote upon a proposal to re-elect John C. Malone and Robert R. Bennett to serve as Class III members of our board of directors until the 2011 Annual Meeting of stockholders or until their successors are elected. We refer to this proposal as the **election of directors proposal**.

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6. To consider and vote upon a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2008. We refer to this proposal as the **auditors ratification proposal**.

We refer to the election of directors proposal and the auditors ratification proposal together as the **annual business proposals**. We will also transact such other business as may properly be presented at the Annual Meeting or any postponements or adjournments of the meeting.

We describe the transaction proposals and the annual business proposals in more detail in the accompanying proxy statement/prospectus. We encourage you to read the proxy statement/prospectus in its entirety before voting.

Holders of record of DHC common stock as of 5:00 p.m., New York City time, on August 5, 2008, the record date (**record date**) for the Annual Meeting, will be entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof. The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of both series of DHC common stock outstanding on the record date, voting together as a single class, is required to approve each of the merger proposal, the preferred stock issuance proposal and the authorized stock proposal. The affirmative vote of the holders of a plurality of the votes of the shares of both series of DHC common stock outstanding on the record date, voting as a single class, that are voted at the Annual Meeting, in person or by proxy, is required to re-elect each of Messrs. Malone and Bennett as a Class III member of our board of directors pursuant to the election of directors proposal. The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of both series of DHC common stock outstanding on the record date and present at the Annual Meeting, in person or by proxy, voting together as a single class, is required to approve each of the incentive plan proposal and the auditors ratification proposal. A list of stockholders entitled to vote at the Annual Meeting will be available at the office of DHC for review by any DHC stockholder, for any purpose germane to the Annual Meeting, for at least 10 days prior to the Annual Meeting.

**The board of directors of DHC unanimously recommends that you vote FOR approval of the merger proposal, the preferred stock issuance proposal, the authorized stock proposal and the incentive plan proposal, FOR the re-election of Messrs. Malone and Bennett as Class III directors, and FOR the auditor ratification proposal.**

Your vote is very important, regardless of the number of shares you own. To make sure your shares are represented at the Annual Meeting, please vote as soon as possible, whether or not you plan to attend the Annual Meeting. You may vote by proxy in any one of the following ways:

Use the toll-free telephone number shown on the proxy card;

Use the Internet website shown on the proxy card; or

Complete, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. It requires no postage if mailed in the United States.

You may revoke your proxy in the manner described in the accompanying proxy statement/prospectus. If you attend the Annual Meeting, you may vote your shares in person even if you have previously submitted a proxy.

By Order of the Board of Directors,

Charles Y. Tanabe  
*Senior Vice President, General Counsel and  
Secretary*

Englewood, Colorado  
August 6, 2008

**PLEASE COMPLETE, EXECUTE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY OR VOTE BY TELEPHONE OR OVER THE INTERNET, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE ANNUAL MEETING. IF YOU HAVE ANY QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR DHC SHARES, PLEASE CALL DHC S INVESTOR RELATIONS DEPARTMENT AT (877) 772-1518.**

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## QUESTIONS AND ANSWERS

*The questions and answers below highlight only selected information from this proxy statement/prospectus. They do not contain all of the information that may be important to you. You should read carefully the entire proxy statement/prospectus, including the appendices included herein, and the additional documents incorporated by reference in this proxy statement/prospectus to fully understand the matters being considered at the Annual Meeting.*

### Concerning the Transaction

#### **Q: What is the proposed Transaction?**

A: DHC and Advance/Newhouse have agreed to combine their interests in Discovery pursuant to the terms of a transaction agreement (**Transaction Agreement**). Advance/Newhouse will contribute its entire interest in Discovery and Animal Planet L.P. (**Animal Planet**) to a new parent company named Discovery Communications, Inc. (**New Discovery**), in exchange for two series of convertible preferred stock of New Discovery, and DHC will merge with a wholly-owned subsidiary of New Discovery. After the contribution by Advance/Newhouse in exchange for the convertible preferred stock and the merger of DHC, DHC stockholders and Advance/Newhouse will be stockholders of New Discovery and Discovery will be an indirect wholly-owned subsidiary of New Discovery.

#### **Q: What is the purpose of the Transaction?**

A: Currently, DHC holds a two-thirds equity interest in Discovery's parent, Discovery Communications Holding, LLC (**Discovery Communications Holding**), and Advance/Newhouse holds the other one-third equity interest and special voting rights. As a result of these special voting rights, DHC is unable to consolidate Discovery for financial reporting purposes. DHC desired to structure a transaction with Advance/Newhouse that would allow DHC to consolidate Discovery for financial reporting and tax purposes while also preserving for its stockholders not less than the level of control over Discovery that DHC currently holds as a two-thirds owner of Discovery Communications Holding. Advance/Newhouse desired to structure a transaction with DHC that would enable Advance/Newhouse to obtain liquidity with respect to its interests in Discovery while also preserving its special voting rights (subject to mutually acceptable modifications appropriate for a public company). Advance/Newhouse also desired that Discovery's ultimate parent company be a pure-play, programming company, which would require the divestiture (**AMC spin-off**) of DHC's interests in Ascent Media Corporation (**AMC**), prior to the completion of the Transaction. At the time of the AMC spin-off, AMC would include all of DHC's Ascent Media Group businesses other than certain businesses that provide sound, music, mixing, sound effects and other related post-production audio services under brand names such as Sound One, POP Sound, Soundelux and Todd A-O (**Ascent Media Sound**). Lastly, both DHC and Advance/Newhouse desired that the Transaction be generally tax-free to each of DHC, DHC's stockholders and Advance/Newhouse. The Transaction was structured to accomplish the foregoing goals.

#### **Q: What will holders of DHC common stock receive as a result of the Transaction?**

A: If the Transaction is completed, each share of DHC Series A common stock or DHC Series B common stock owned by a DHC stockholder at the effective time of the merger will be exchanged for 0.50 of a share of the same series of New Discovery common stock and 0.50 of a share of New Discovery Series C common stock. All three series of New Discovery common stock (Series A, B and C) will have the same rights, powers and preferences, except (1) the Series B common stock will be convertible into the Series A common stock and (2) the Series B will have 10 votes per share, the Series A will have one vote per share, and the Series C will not

have any voting rights except as required by Delaware law.

**Q: Why will holders of DHC common stock receive Series C common stock of New Discovery?**

A: One of the anticipated benefits of the Transaction is the ability of New Discovery to issue equity on more favorable terms in connection with future acquisitions. Using a publicly traded, non-voting series of stock as acquisition currency will enable New Discovery to issue stock without diluting the voting rights of its existing stockholders, including the former DHC stockholders and Advance/Newhouse. Issuing Series C common stock

of New Discovery in the Transaction will allow a market to develop in this stock prior to the need for its use in an acquisition.

**Q: What will Advance/Newhouse receive as a result of the Transaction?**

A: In exchange for its contribution to New Discovery of its entire indirect interest in Discovery and Animal Planet in accordance with the Transaction Agreement, Advance/Newhouse will receive shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock. The convertible preferred stocks will initially be convertible, on an as-converted basis, into one-third of the common equity of New Discovery. Accordingly, the Series A convertible preferred stock will be convertible into a number of shares of New Discovery Series A common stock equal to one-half of the aggregate number of shares of New Discovery Series A and Series B common stock issued in the merger, and the Series C convertible preferred stock will initially be convertible into a number of shares of New Discovery Series C common stock equal to one-half of the shares of New Discovery Series C common stock issued in the merger, in each case, subject to anti-dilution adjustments. Advance/Newhouse is receiving convertible preferred stock rather than shares of common stock because the convertible preferred stock will enable Advance/Newhouse to exercise its special voting rights through a separate class vote in its capacity as a stockholder of New Discovery, which reflects how Advance/Newhouse currently exercises its special voting rights with respect to Discovery.

Advance/Newhouse will also be entitled to additional shares of the same series of convertible preferred stock following the merger upon exercise of certain options and stock appreciation rights in respect of New Discovery common stock that will be outstanding immediately after the merger. These additional shares will be deposited by Advance/Newhouse into an escrow account upon closing for the benefit of Advance/Newhouse and released from escrow contingent upon any such exercise. The shares are being issued and escrowed to avoid dilution to Advance/Newhouse as a result of the rollover of outstanding equity awards at DHC.

The New Discovery preferred stock will vote as a single class with the holders of New Discovery common stock on all matters submitted for a vote to the common stockholders of New Discovery, except for the election of directors. The New Discovery convertible preferred stock will have the right to elect three members of New Discovery's board of directors (who we refer to as the **preferred stock directors**) and will have the special voting rights referenced above on matters such as fundamental changes in the business of New Discovery, certain acquisitions and dispositions and future issuances of New Discovery capital stock.

**Q: How will the Transaction affect the proportionate equity interests of the existing stockholders of DHC in Discovery and AMC?**

A: Following the completion of the Transaction and the AMC spin-off, former DHC stockholders will own 662/3% of the equity of New Discovery (which will own 100% of the equity of Discovery and 100% of the equity of Ascent Media Sound) and 100% of the equity of AMC. Today, DHC owns 662/3% of the equity of Discovery, 100% of the equity of AMC and 100% of the equity of Ascent Media Sound. Following the completion of the Transaction and the AMC spin-off, Advance/Newhouse will own 331/3% of the equity of New Discovery, which will own 100% of the equity of Discovery and 100% of the equity of Ascent Media Sound. Today, Advance/Newhouse owns 331/3% of the equity of Discovery and no interest in AMC or Ascent Media Sound. For financial information on AMC, see its Audited Financial Statements included as Appendix F to this proxy statement/prospectus. Although no formal valuation was performed with respect to Ascent Media Sound, DHC believes that it would have an enterprise value of up to \$50 million. As a result of the Transaction, the DHC stockholders' equity interest in Ascent Media Sound will be diluted by 331/3%. The DHC board considered the dilutive effect on the DHC stockholders of retaining Ascent Media Sound at New Discovery but determined that the benefits to the Transaction of retaining Ascent Media Sound at New Discovery outweighed the dilution to the

DHC stockholders.

**Q: How will the Transaction affect the proportionate voting interests of the existing stockholders of DHC?**

A: Following the completion of the Transaction, former DHC stockholders will hold 74% of the aggregate voting power of New Discovery (other than with respect to the election of directors), based upon the number of shares of DHC common stock outstanding on June 30, 2008, and former DHC stockholders will own 100% of the aggregate voting power of New Discovery with respect to the election of the eight directors that are not elected by the holders of the New Discovery convertible preferred stock.

Immediately following the completion of the Transaction, Advance/Newhouse will hold 26% of the aggregate voting power of New Discovery (other than with respect to the election of directors), based upon the number of shares of DHC common stock outstanding on June 30, 2008. In addition, the New Discovery convertible preferred stock will have the right to elect three directors and special voting rights on select matters for so long as Advance/Newhouse (or a permitted transferee) owns a specified minimum amount of Series A convertible preferred stock.

Although Advance/Newhouse will hold 33 1/3% of the equity of New Discovery, its aggregate voting power is less than this percentage (and, conversely, former DHC stockholders will hold 66 2/3% of the equity of New Discovery but their aggregate voting power will exceed this percentage) because the holders of DHC Series B common stock will receive shares of Series B common stock of New Discovery in the Transaction, which have the same per share voting rights as the DHC Series B shares.

**Q: What is the incentive plan proposal?**

A: The DHC incentive plan provides the compensation committee of the DHC board with the ability to grant equity based incentive awards and certain cash awards to employees and consultants. Under the current DHC incentive plan, the aggregate number of shares with respect to which awards may be granted is 20 million and the aggregate number of shares with respect to which awards may be granted to a person in a single calendar year is 2 million. New Discovery will assume the DHC incentive plan upon the consummation of the Transaction and going forward New Discovery's compensation committee will be responsible for the administration of the DHC incentive plan.

The DHC board has determined that the limits described above should be increased in connection with New Discovery's assumption of the DHC incentive plan in the Transaction because it is the expectation of DHC and Advance/Newhouse that, as a result of the Transaction, participants under the Discovery Appreciation Program (DAP), the current incentive plan of Discovery, and other current and future employees of Discovery will become grantees under the DHC incentive plan and, generally, new awards under the DAP will not be made after completion of the Transaction. The terms of the future grants under the DHC incentive plan (other than those contemplated by (i) a term sheet entered into between the compensation committee of Discovery and John Hendricks, the Founder and Chairman of Discovery, on July 29, 2008 and (ii) the employment agreement with Discovery's new chief financial officer, Bradley Singer) have not yet been determined; rather, it is the expectation of DHC and Advance/Newhouse that the compensation committee of the New Discovery board will be tasked with making those determinations. In determining that the limits under the DHC incentive plan should be increased in connection with the Transaction, DHC and Advance/Newhouse also took into account that, pursuant to the term sheet relating to Mr. Hendricks' awards, he would receive a grant of stock options under the DHC incentive plan relating to approximately 4.8 million DAP units that are vesting in 2008, thereby requiring an increase in the DHC incentive plan's per-person, per year grant cap. For a description of the term sheet relating to Mr. Hendricks' awards and Mr. Singers' employment agreement, please see Management of New Discovery Executive